

Joint (Industry/Government)
Working Group Report on

Sharing Responsibilities and Costs of Exotic Animal Disease

July 2006

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Foreword

In the recent past there have been a number of major outbreaks of exotic disease, most notably the Foot and Mouth Disease outbreak in 2001, which have had a profound impact on the livestock sector and have had costly consequences for the British economy more generally. This has led to the development of an Animal Health and Welfare Strategy which seeks to put partnership between government and other interested parties at the heart of our arrangements for preventing, preparing for and controlling animal diseases.

We were appointed in December 2005 with the remit to work in partnership to consider the balance of risks and responsibilities associated with keeping farm animals in the context of the importance and role of both on-farm and external biosecurity controls. We were asked to make recommendations to both government and industry in a relatively short timescale that would help inform debate on how responsibilities for, and costs of animal disease outbreaks, should be shared. Our full terms of reference can be found at Annex 1.

Details of who we are can be found at Annex 2.

This report presents the outcome of our deliberations. It sets out the issues that we have considered, the case studies of cost sharing arrangements in other countries that we have looked at and draws some conclusions and makes recommendations on the way forward.

Structure of the report

We begin by setting out the context for our work, why a new framework for sharing responsibilities and costs for exotic animal diseases is being developed, and the challenge that lies ahead. **Chapter 1** also sets out recent developments at the European Union level in its review of the Community Animal Health Policy. In addition, a workshop was held with wider stakeholders in April 2006, the outcomes of which are included in this chapter.

Ownership of risk within an overall risk management framework is a key issue and this is considered in **Chapter 2**. In this chapter we consider who is best placed to control risks of disease incursions and who are the main beneficiaries of government intervention.

Government has an important responsibility for maintaining external biosecurity. That is to say ensuring that our borders are effectively controlled to prevent disease incursion. This issue is considered in **Chapter 3**.

Through maintaining and enhancing biosecurity on-farm, the livestock industry has direct control of risks. We consider the issue of incentives in **Chapter 4**.

What we share responsibilities for and indeed 'how' we share responsibilities in a meaningful way is considered in more detail in **Chapter 5**. The chapter sets out possible institutional models for sharing responsibilities between government and industry.

Chapter 6 considers the issue of sharing costs of exotic disease control and puts flesh on the bones on how the industry contribution to a cost sharing arrangement can be met and how this can be used to achieve the overriding aim of reducing risk of disease and its spread. It considers which costs should be shared between government and industry, whether consequential loss should be included, the use of insurance products and levy mechanisms. In respect of levy mechanisms, it considers the issue of a prospective versus retrospective levy.

Given the relatively short time that we were asked to produce a report to Ministers and industry, there were a number of important issues that we did not have sufficient time to consider. As the processing, retail and foodservice sectors are key beneficiaries of reduced animal disease risk, we would have had wished to consider the responsibilities of these sectors in delivering better animal health. We are also aware of the wider debate on charging and cost sharing that is taking place as part of the government's Comprehensive Spending Review exercise. We consider that it is essential that in the 'big picture' we do not lose sight of the issue of affordability. This, and other issues, are considered in **Chapter 7**.

Executive Summary

1. In the Action Plan to *Partners for Success – A farm regulation and charging strategy*, the government stated its intention to set up a joint working group with the farming industry to develop risk sharing arrangements for tackling exotic animal diseases that would be appropriate in the English context. Our Group started its work in December 2005.
2. The overriding objective for sharing responsibility and costs between industry and government must be to achieve better management of animal disease risks so that the overall risks and costs are reduced.
3. Our key conclusion and recommendation is that a joint industry and government approach to sharing costs and responsibilities for exotic animal disease is the right approach. That approach must be based on:
 - A genuine partnership agreement;
 - A new statutory body for sharing the responsibilities and costs of animal disease with both industry and government representation;
 - The shared responsibility to extend to all aspects of the development and delivery of exotic animal disease control policies, including policy in respect of handling disease outbreaks, provided that both government and industry can provide the necessary accountability to discharge their responsibilities effectively;
 - In particular, government must ensure that there is appropriate accountability to Parliament and the wider public interest and that the formal and legal responsibilities of the Chief Veterinary Officer are protected;
 - Industry acknowledging its increased role and its commitment to the partnership and providing representatives who can make binding policy and financial commitments on its behalf;
 - The new statutory body should have a formal role in discussions with the European Commission on animal health issues relating to exotic diseases; and
 - The main focus of the partnership must be on preventing the incursion and spread of exotic animal diseases as well as minimising the costs associated with those diseases and their control.
4. Although we were asked by Defra Ministers to consider sharing costs and responsibilities for animal disease in England we consider that there needs to be a common approach to sharing costs and responsibilities across Great Britain and preferably the UK.
5. In the time available we were not able to carry out a proper analysis of all the beneficiaries of a risk management framework for exotic diseases. Under the principle that the 'beneficiary

pays' we should expect contributions from all beneficiaries into any cost sharing arrangement. On a preliminary analysis, it seems to us that auction markets, slaughterhouses, processing and cutting plants, foodservice and food retailers all depend on the primary livestock production sectors and all are beneficiaries of exotic disease risk management. Therefore, we consider that further work needs to be undertaken on this issue.

6. We consider that it is essential that agreement be reached on categorisation of disease to help determine responsibilities and the share of costs between government and industry for different diseases and on the most appropriate (effective and efficient) mechanism for levy collection. There are, for example, arguments for and against either a retrospective or prospective levy (or a combination of the two). These are matters that need further consideration as part of the consultation with wider industry and government.
7. This report to Ministers and industry is very much a 'work in progress'. We, therefore, consider that there is value in either retaining our Group to advise Ministers and industry or set up a new joint government/industry working group to take forward the outstanding issues as identified in this report.

Conclusions and Recommendations

Chapter 1 – The Context

- There are clear benefits to having a joint approach on sharing responsibilities and costs between government and industry;
- Industry and government should work together to influence the shape of EC policy;
- There should be a partnership approach in the implementation of EC policy;
- There needs to be a common approach to sharing costs and responsibilities in the UK and at least across Great Britain.

Chapter 2 – The Risk Framework for Managing Exotic Disease

- Livestock farmers 'own' and are responsible for managing disease risks on-farm;
- There is a distinction to be drawn between ownership of risk and the responsibility for managing that risk;
- As a general principle the aim should be to get the two as closely aligned as we can;
- One role of government is to enforce the controls at the border in an efficient and effective manner;
- There is a broad area of risk management and disease control activity beyond individual farm level where there are real opportunities for livestock industries to become active participants in deciding what is the best approach in terms of rules and regulations which apply to them.

Chapter 3 – Preventing Animal Disease Incursion at the Border

- Border control is an important factor in reducing the risk of exotic disease;
- The effectiveness of the Border Inspection Posts in their task of preventing disease incursion is only as good as the weakest link across the EU. The Commission perspective on the effectiveness of current Border Inspection Posts merits further attention;
- Note the Her Majesty's Revenue and Customs activity on illegal personal imports and acknowledge that there is always more that could be done, but it needs to be cost effective and proportionate to the risk;
- There is potentially a role for industry in an advisory capacity in this area.

Chapter 4 – Enhancing On-Farm Biosecurity

- There is a need to take account of sector and management system differences – ‘no one size fits all’;
- Biosecurity should be viewed not as a cost but as a tool to manage disease risk and reduce disease costs;
- There is a need to encourage active farm health planning and not just as a tick-box exercise;
- Farm assurance has a role to play in improving on-farm biosecurity;
- Industry should take ownership of on-farm biosecurity and have its own campaigns;
- Any new arrangements should have as a key feature the improvement of on-farm biosecurity: industry and government should work together to look to incentivise risk reduction activity.

Chapter 5 – Sharing Responsibilities for Managing Exotic Disease Risks

- A new statutory body, with industry and government representation, should be established for sharing responsibilities and costs for exotic animal disease between government and industry;
- The shared responsibility should extend to all aspects of the development and delivery of exotic animal disease control policies, including policy in respect of handling disease outbreaks;
- Government must be able to accommodate this change of approach to a formal partnership;
- Industry will need to acknowledge its increased role and its commitment to the partnership;
- The main focus of the partnership body must be on preventing exotic animal diseases and minimising the costs associated with them and their control;
- Devolved Administrations and industry colleagues in Northern Ireland, Scotland and Wales must be engaged as soon as possible in the debate.

Chapter 6 – Sharing the Cost for Managing Exotic Disease

- Any cost sharing agreement needs to be affordable and equitable to all parties;
- Industry resources and public resources must be used effectively and efficiently to reduce the risk of a disease outbreak and the control and eradication of an outbreak;
- Direct costs can be a relatively small part of the total costs of eradication in a large outbreak;

- It should be recognised that farmers already meet a large part of the total cost of an exotic disease outbreak and this should be taken into account in determining equitable cost sharing arrangements;
- No hard and fast rule can be drawn between consequential loss and direct loss for farmers and there needs to be clear definitions of what costs will be covered by future arrangements;
- The scope of a cost sharing agreement should not include consequential costs. However, there is a need to encourage and provide incentives to private insurers to cover these costs;
- There needs to be further work on disease categorisation to help determine responsibilities and the share of costs between government and industry for different diseases;
- In negotiations in the EC, the government's objective should be to ensure that contributions from the EC Veterinary Fund recognise both government's and industry's contribution to expenditure;
- Further consideration should be given to the issue of prospective and/or retrospective funding of a disease levy;
- There ought, in principle, to be a cap on industry contribution to any cost sharing agreement.

Chapter 7 – Outstanding Issues and Further Work

- There needs to be a full analysis of all the beneficiaries of the risk management framework for exotic animal diseases;
- There needs to be an engagement with downstream interests on the principle that 'beneficiary pays' and the government's role in representing the public interest;
- There needs to be further engagement with the insurance industry;
- There is an urgent need to bring on board Devolved Administrations and industry colleagues;
- There is a need to give full weight to the issue of affordability in taking forward the charging agenda;
- Either Joint (Industry/Government) Working Group on Sharing Responsibilities and Costs of Exotic Animal Disease or another joint group needs to take forward these and other outstanding issues.

Chapter 1: The Context

Introduction

- 1.1. As recent experience testifies, exotic disease outbreaks are an ever-present threat to the sustainability of our livestock industries. There is a need for constant vigilance to ensure that exotic animal diseases¹ do not get a foothold in the country. If there is an incursion, then it is imperative that there is a rapid and effective response to eradicate the disease as quickly as possible. In mounting such a response, we all have a role to play. The 'we' in this context includes the primary livestock sectors, government, the veterinary profession, food chain related businesses and consumers.
- 1.2. In considering our task, we took as our starting point the Animal Health and Welfare Strategy for Great Britain published in 2004 which set as its aim to *develop a new partnership in which we can make a lasting and continuous improvement in the health and welfare of kept animals while protecting society, the economy, and the environment from the effects of animal diseases*. We recognise that much has been achieved in taking forward the Animal Health and Welfare Strategy – not least in the work of the England Implementation Group with individual livestock sectors on farm health planning.
- 1.3. More recently, in the *Partners for Success – A farm regulation and charging strategy*, the government repeated its commitment to working in partnership with the farming industry. The strategy stated that partnership must be based on strong leadership, responsibility, trust and co-operation. We fully endorse these key foundational principles for effective partnership working. Strong industry leadership means working with government to seek the best mechanisms for preventing and managing animal diseases. We suggest that the work of this Group takes both partnership working and industry leadership one stage further.
- 1.4. The Farm Regulation and Charging Strategy re-stated the government's commitment to better regulation. In practice, this should mean government working closely with industry and other stakeholders on developing policy options before deciding a course of action. However, we recognise that with industry's involvement and influence over the design of policies must come an acceptance of its role and responsibility in achieving the outcomes that we all want. Indeed, the Animal Health and Welfare Strategy made plain that it was not for government alone to incur the cost of prevention and control of diseases. The distribution of costs should better reflect where the balance of responsibilities lie for managing risks and also take account of those who benefit from measures taken to manage them.

¹ By exotic animal diseases we mean notifiable diseases set out in the former OIE List A.

The challenge

- 1.5. Government has a clear responsibility to lead the response to an outbreak of exotic disease. However, since the Animal Health and Welfare Strategy was published, both government and stakeholders have been developing new forms of cooperation to improve our partnership working. As current evidence of this, members of our Working Group have had first hand experience of working closely with Defra on recent Avian Influenza incidents. Although the decision-making responsibility for Avian Influenza policy rests fully with government at present, there is clear recognition that the policy needs the full participation and commitment of all parties if it is to achieve its aims.
- 1.6. Our presumption is that the management of exotic disease risk would be more effective and efficient if it were done in a full partnership mode between government and the livestock industries. This presumption is based on the fact that the primary responsibility for the health and welfare of farm animals lies individually and collectively with livestock farmers. As a result, livestock farmers are better placed than others to deal with many of the risks of exotic disease spread at the farm level. We, therefore, believe that livestock industries must play a full role in determining animal health policy for exotic diseases.
- 1.7. This is not to say that government does not have a very important role to play. The government has the important role to play securing our borders against disease incursions and in bringing to bear public resources in eradicating an animal disease where there is a real possibility of a serious impact on public health, the industry and the environment as a consequence of an exotic disease outbreak. It also, on behalf of the taxpayer, has an important role in ensuring that impacts on other parties ('externalities') are kept to a minimum. In this the protection of public health is a key consideration.
- 1.8. Therefore, the challenge is to devise a framework for exotic animal disease risk management in which the livestock industries:
 - Have a real say in decision making both in respect of disease prevention policies and in respect of the response in the event of an outbreak; and
 - Accept their share of responsibilities for risk management and the costs of dealing with exotic disease outbreaks.

The benefits

- 1.9. We believe that if the right risk management framework can be devised, there will be benefits of partnership working for both government and the livestock industries. These will include:
 - A real reduction in overall risk and, therefore, cost of exotic disease outbreaks;
 - The livestock industry changing from being a passive recipient of government rules to being an active manager of its own risks;
 - A greater sense of ownership of the risks facing the livestock industries leading to a greater willingness to accept responsibilities;
 - Introduction of more effective rules for reducing the risk of disease spread as a result of industry engagement in decision making;

- A more effective and efficient management of exotic disease incursion response;
- A clearer rationale for contribution of public funds to exotic disease control that is more transparent and justifiable;
- A distribution of costs which better reflects where the balance of responsibilities lie for managing risks;
- A general increase in industry awareness and improvement in the management of all disease risks at the farm level.

We consider that these benefits are real and well worth the collective effort required to achieve them.

Our approach

- 1.10. In the *Action Plan for the farm regulation and charging strategy*, the government said that it would set up a joint working group with the farming industry to develop risk sharing arrangements for tackling exotic animal diseases appropriate to the English context. We held our first meeting in December 2005.
- 1.11. We began our work by identifying the key issues that needed to be considered in addressing the overall objective of sharing responsibilities and costs for exotic animal disease. These are detailed in the body of our report. However, this included:
- Risk ownership within an overall management framework for exotic animal diseases;
 - Differences between and within livestock sectors;
 - Border control;
 - Enhancing on-farm biosecurity;
 - What diseases should be covered by a cost and responsibility sharing agreement;
 - Potential economic impact of cost sharing on the livestock sectors;
 - Possible institutional models, applicable to England, which would give effect to sharing responsibilities and costs;
 - Involvement of Devolved Administrations to achieve a common domestic approach; and
 - European Community dimension including State Aid issues.
- 1.12. Inevitably this report represents a distillation of our work. However, we were keen that we should share the information that we had before us in reaching our views. Therefore, papers, minutes and agendas of our meetings are available on the Internet.²
- 1.13. Early on in our deliberations, we considered explicitly whether our work should include endemic diseases as well as exotic diseases. We concluded that it should not because of the differences in the nature of the responses to the eradication of exotic, particularly notifiable exotic, diseases and endemic diseases. Notwithstanding this, we do recognise that any model that we may propose for sharing responsibilities and costs could, in principle, extend to endemic diseases.

² <http://www.defra.gov.uk/farm/livestock/strategy/cshare/index.htm>

The new Community Animal Health Policy being developed for 2007-2013 refers to 'epidemic' diseases, which implies coverage of both exotic and endemic diseases. The implications of covering epidemic disease needs further consideration as the UK will, along with all other Member States, be required to meet their Community obligations.

- 1.14. As part of our work, we also considered cost and responsibility sharing models in other developed countries. We were fortunate enough to receive detailed firsthand accounts of the Australian cost sharing agreement for emergency animal disease response and also on the system for cost sharing for animal disease that operates in the Netherlands. In addition, our industry joint chairman attended meetings with European Commission officials to learn more about and influence the development of Commission proposals to introduce harmonised rules for cost sharing for all Member States (see below).
- 1.15. We also held a highly interactive one-day workshop on 4 April 2006 to engage with a wider group of stakeholders. Some seventy-five representatives from livestock producer organisations, wider food chain, government and other interests attended. However, we took care to ensure that the majority of attendees came from the livestock industries. We were thus pleased to find that the majority of attendees endorsed the direction that we had been taking and the key result was that a clear majority were confident that a cost and responsibility agreement could be secured.³

The European Community dimension

- 1.16. Under current arrangements in the event of an exotic disease outbreak, such as Foot and Mouth Disease, in any Member State, the European Community meets part of the direct costs of eradicating the disease from the EC Veterinary Fund.⁴ We understand that, partly out of concern about the potential calls on the Veterinary Fund, the Commission is seeking to introduce a requirement that each Member State has in place cost sharing arrangements between government and the livestock sectors. This initiative is being taken forward as part of the review of Community Animal Health Policy, which was launched in December 2004.
- 1.17. In developing its proposals, the Commission organised an Experts Workshop in March 2006 at which it presented results from a feasibility study on cost sharing schemes for livestock epidemics and looked at current cost sharing arrangements between government and industry in the Netherlands, Spain, Germany, France and Australia. The Commission is now in the process of finalising a report that it will put first to Member States and then to a Stakeholder Conference in November 2006. The Commission intends to publish a Communication accompanied by an Action Plan in early 2007.⁵
- 1.18. From reports of meetings between our industry joint chairman and Commission officials, we were pleased to find that they welcome and value our input into shaping the Community agenda on cost sharing for animal disease. They were particularly attracted to the partnership approach between government and industry that we are working to adopt and want to learn from our experience. We fully endorse this position. Also, given that the

³ Full details of the workshop can be found at <http://www.defra.gov.uk/farm/livestock/strategy/cshare/index.htm>

⁴ Council Decision 90/434/EEC as amended by Commission Regulation (EC) No. 349/2005.

⁵ Further details of the review of the Community Animal Health Policy can be found at http://europa.eu.int/comm/food/animal/diseases/strategy/cahpeval_en.htm.

Commission intends to propose cost sharing as a requirement for all Member States, we believe it essential to use every opportunity to influence its direction and content so that our own objective of devising a responsibility and cost sharing arrangement that reduces the overall risk of exotic disease outbreaks is achieved.

UK devolution dimension

1.19. Although we were asked by Defra Ministers to consider sharing costs and responsibilities for animal disease in England, we note the importance of the status of Great Britain as an epidemiological unit. Although we recognise the fact that animal health is a devolved matter, we recommend that there needs to be a common approach to sharing costs and responsibilities in the UK and at least across Great Britain. This conclusion is in keeping with the Animal Health and Welfare Strategy for Great Britain, which was published in 2004.

Our key conclusions are:

- There are clear benefits to having a joint approach on sharing responsibilities and costs between government and industry;
- Industry and government should work together to influence the shape of EC policy;
- There should be a partnership approach in the implementation of EC policy;
- There needs to be a common approach to sharing costs and responsibilities in the UK and at least across Great Britain.

Chapter 2: The Risk Framework for Managing Exotic Diseases

- 2.1. Keeping of livestock is an activity that has its inherent risks. One such risk is that livestock fall prey to disease. In the event of an outbreak of disease there can be serious effects not only on the particular livestock farm but also on other livestock and farming businesses, as well as across a broad range of economic, environmental and social activity. Since the disease is likely to manifest itself at a livestock farm, it should be evident that the primary responsibility for managing disease risk lies with the keeper of livestock and is part of the overall business risk. On the other hand, government has responsibility for border control and for managing the risk of initial incursion by that route. Livestock farmers must accept their duty in owning and managing the risk of animal disease, just as government must accept its responsibility to ensure that the necessary standards of animal health and welfare are enforced, both at the border point and beyond.
- 2.2. The work of this group has shown that, despite the fact that different responsibilities for managing disease risk can be shown to lie principally either with industry or with government, it is generally unhelpful to try to split them into discrete silos. The strength of the principle of shared responsibility and costs is that every party to the continuum of managing disease risk should regard their responsibility as part of an interdependent whole.
- 2.3. Notifiable exotic diseases can give rise to major negative externalities in relation to other persons and businesses and in relation to international trade (e.g. Foot and Mouth Disease). Government has an important responsibility in protecting the interests of these groups. Government also has an overriding obligation to protect public health. That is why government at the national and international level has an important role in setting out measures to prevent, control and eradicate notifiable exotic diseases. However, it does not follow from this that 'ownership' of risks associated with exotic diseases and, therefore, all responsibility for managing these risks passes to government and its agencies. Therefore, we draw a distinction between ownership of risk and responsibility for managing that risk. We also consider that as a general principle the aim should be to get the two as closely aligned as possible.
- 2.4. In thinking about notifiable exotic disease risks, it is important to recall that risks arise not just from trade in live animals and animal products or personal importation of animal products, but also arise naturally – such as from migration of wildlife and plumes of infectious organisms. These natural risks are difficult if not impossible to control.
- 2.5. For **international trade** in live animals and animal products and **personal imports** of animal products, the responsibility for complying with the legal requirements rests with the owners of those goods. In this context the 'ownership' of the risk lies with the trader or traveller. One role of government is to reduce risk through enforcing the controls at the border in an efficient and effective manner. These controls can be intensified in response to the enhanced risks identified from surveillance of disease outbreaks overseas, risk assessments and international collaboration.

- 2.6. At **the farm level**, livestock keepers clearly have an interest in ensuring that risks to their businesses from exotic disease are reduced as far as possible. The livestock keeper has a responsibility to take biosecurity measures and have in place farm health plans to ensure that risk of disease coming onto his or her farm is minimised as far as possible (see the next Chapter for more detailed discussion of this issue). The level of risk and the ability to manage and control the risk will to some extent depend on the type of farming activity undertaken. Different sectors will face different kinds of risk and will no doubt want to adopt different approaches to manage these risks.
- 2.7. **Beyond the individual farm level** there is considerable amount of risk management activity undertaken to reduce exotic disease risk. This includes surveillance, emergency preparedness, contingency planning and the movement control regime. Currently where this work is undertaken by government agencies the activity benefits mainly, but not only, livestock industries.
- 2.8. Notwithstanding the extensive risk management activity undertaken by government agencies, we consider that there are real opportunities for livestock industries to become active participants in deciding what is the best approach in terms of rules and regulations that apply to them.
- 2.9. Instances can arise where it is necessary to strike a balance between two competing goals: reducing risk of disease spread and maximising the efficiency of the market. Beyond individual farm level, the farming industry collectively has some responsibility for managing the exotic disease risk and, therefore, participates in activity towards reducing the risk. This leads to the conclusion that there ought to be shared responsibility for issues such as emergency preparedness and contingency planning etc. Striking a different balance on responsibility sharing in these areas will require collective industry measures to reduce risk and a readiness to assume the financial implications.
- 2.10. In our deliberations, we found the presentation given to us by Siem-Jan Schenk of the Dutch producer organisation instructive. He explained that livestock farmers in the Netherlands see risk reduction activity in respect of animal diseases as being primarily their responsibility. Dutch farmers collectively share the desire to keep official intervention on their farm businesses as low as possible and use private veterinary surgeons for routine monitoring and surveillance. Within the rules and regulations set by the state much of the enforcement is carried out by the farmer-owned organisations with state officials being involved as a last resort.

Our key conclusions are:

- Livestock farmers 'own' and are responsible for managing disease risks on-farm;
- There is a distinction to be drawn between ownership of risk and the responsibility for managing that risk;
- As a general principle the aim should be to get the two as closely aligned as we can;
- One role of government is to enforce the controls at the border in an efficient and effective manner;
- There is a broad area of risk management and disease control activity beyond individual farm level where there are real opportunities for livestock industries to become active participants in deciding what is the best approach in terms of rules and regulations which apply to them.

Chapter 3: Preventing Animal Disease Incursion at the Border

- 3.1. As an island Great Britain is to some extent protected from exotic disease incursions (but not from all exotic diseases as recent cases of Avian Influenza in Britain have illustrated). By definition exotic diseases are not normally present in the country and have to enter somehow if there is to be an outbreak of disease. Therefore, in our view, the border is a key point at which exotic disease risk reduction activity must occur.
- 3.2. We had the benefit of some helpful presentations from Her Majesty's Revenue and Customs (HMRC) and Defra on the risk management activity that currently exists to prevent exotic disease entering the country.
- 3.3. This activity can be divided into four parts:
 - Monitoring and intelligence gathering on occurrence on disease around the world;
 - Processes for legal intra-Community trade;
 - Border control system for legal trade with third countries;
 - Controls at ports of entry for illegal trade and imports and elsewhere.
- 3.4. Defra carries out extensive monitoring and intelligence gathering for notifiable exotic diseases overseas. This is used to inform qualitative assessments of the risk a given exotic disease entering the UK, which are available on the Defra website.⁶
- 3.5. For intra-Community trade there is no system of frontier checks as animals and products cross national borders because the Single Market applies.
- 3.6. A concern for us, however, was over trade with third countries. Under the current arrangements, once a product of animal origin enters the Single Market then there is complete access to any of the Member States without the need for any further border checks.⁷
- 3.7. All animals and animal products must enter the European Community via an official Border Inspection Post (BIPs). They are regularly audited by the Commission but given the diversity of arrangements across Member States, it is highly likely that there is variation in

⁶ <http://www.defra.gov.uk/animalh/diseases/monitoring/riskassess.htm>

⁷ The rules for international trade in animals and animal products is set by the World Trade Organisation framework which includes the Sanitary and Phyto-Sanitary Agreement. Animals and animal products from third countries must comply with stringent import conditions. For example, live animals must:

- come from a country approved to export the animals;
- come from a holding free from disease;
- show no sign of disease at a veterinary examination; and
- be accompanied by an official health certificate.

effectiveness. In our view their overall effectiveness in preventing disease incursion is only as good as the weakest link. We did not have time to explore the Commission's thinking on its role in exotic disease reduction, and consider this issue merits further attention.

- 3.8. On illegal trade and imports, responsibility for anti-smuggling controls passed to HMRC in 2003. HMRC enforcement is risk based and targeted, informed by intelligence and the international risk assessments carried out by Defra. The overwhelming majority of seizures are from travellers with little evidence of organised illegal meat trade.
- 3.9. All front-line staff at ports and airports are trained in anti-smuggling responsibilities for animal products. HMRC has a dedicated resource of around 100 officers, a detector dog programme, and has installed new baggage x-ray scanners at selected airports.
- 3.10. Industry members of our Group noted that there was considerably more activity to stop illegal imports than they had appreciated. There was always more that could be done, but we acknowledge that this needs to be cost effective and proportionate to the risk.
- 3.11. Given the importance of border control to the overall risk management for exotic disease, we consider that there is a role in this area for the livestock industries in an advisory capacity.

Our key conclusions are:

- Border control is an important factor in reducing the risk of exotic disease;
- The effectiveness of the Border Inspection Posts in their task of preventing disease incursion is only as good as the weakest link across the EU. The Commission perspective on the effectiveness of current Border Inspection Posts merits further attention;
- Note the Her Majesty's Revenue and Customs activity on illegal personal imports and acknowledge that there is always more that could be done, but it needs to be cost effective and proportionate to the risk;
- There is potentially a role for industry in an advisory capacity in this area.

Chapter 4:

Enhancing On-farm Biosecurity

- 4.1. In Chapter 2 we considered the issue of risk ownership and responsibility for managing risks and concluded that livestock farmers 'own' and are responsible for managing disease risks on-farm. To spell this out fully, it means that farmers have a responsibility to:
 - Reduce the risk of disease getting onto their holding;
 - Minimise the risk of spread within their holding;
 - Minimise the risk of spread to other farms.
- 4.2. It is an inevitable fact that there is a considerable degree of variation between livestock sectors and within sectors in respect of explicit measures taken in reducing disease risks. Perceptions of disease risk and, therefore, management practices to minimise risk vary hugely. So, for example, most intensive poultry and pig sectors have very highly developed biosecurity systems but extensive production systems generally do not.
- 4.3. The variation may also be a reflection of the fact that different management systems have inherently different risks. For example, within the poultry sector one might expect that there were different levels of risk of exotic disease facing free-range systems as compared with indoor systems and the same risk reduction measures could not be applied effectively in both systems.
- 4.4. This points to the conclusion that 'no one size fits all'. However, we consider that this does not remove the imperative on farmers to manage effectively disease risk on-farm. In addition, disease outbreaks will have a financial cost. Therefore, it follows that reducing the disease risk will reduce the financial risk. In our view, biosecurity should be viewed not as a cost but rather as an important tool to manage financial risk.
- 4.5. The Animal Health and Welfare Strategy England Implementation Group has been leading an initiative on farm health planning as a means of improving animal health and on-farm biosecurity. We fully support this initiative. Such initiatives provide opportunities to promote changes in behaviour, increasing the uptake of farm health planning across the industry (and across the UK) in a sustainable way. In Scotland, for example, adoption of farm health planning forms part of the Rural Development Scheme, and in England a proactive approach to dynamic health planning is being promoted via partnership working on various initiatives and industry led communication campaigns. However, farm health plans must not become a 'tick-box' exercise but should be an active management tool to be used by farmers to reduce risk. We also note that there are farm health planning requirements in some farm assurance schemes and they may have a role in improving on-farm biosecurity.

- 4.6. Overall, we consider that a key objective of any new arrangement for sharing responsibility should be the improvement of on-farm biosecurity and the onus has to be on industry to look for ways to incentivise risk reduction activity. Therefore, we would recommend that the livestock sectors, with government involvement, continue their active role and ownership of on-farm biosecurity. Campaigns should be resourced as necessary to ensure that the messages are taken up by all livestock keepers.

Our key conclusions are:

- There is a need to take account of sector and management system differences – ‘no one size fits all’;
- Biosecurity should be viewed not as a cost but as a tool to manage disease risk and reduce disease costs;
- There is a need to encourage active farm health planning and not just as a tick-box exercise;
- Farm assurance has a role to play in improving on-farm biosecurity;
- Industry should take ownership of on-farm biosecurity and have its own campaigns;
- Any new arrangements should have as a key feature the improvement of on-farm biosecurity: industry and government should work together to look to incentivise risk reduction activity.

Chapter 5: Sharing Responsibilities for Managing Exotic Disease Risks

- 5.1. We said in Chapter 2 that the aim should be to align as closely as possible the ownership of risk and the responsibility for managing risk. We said that in looking at the risk management framework for exotic diseases, government is best placed to take responsibility for reducing risk at the border through effectively enforcing controls and farmers should 'own' and take responsibility for managing disease risk on-farm. However, there is a broad area of risk management activity before and beyond the individual farm level, currently undertaken by government, where we consider that the responsibility for reducing risk of exotic disease spread should be shared between government and the livestock industries. In this Chapter we examine in more detail what we consider sharing responsibilities might mean in practice and how this could be achieved through new institutional arrangements.
- 5.2. By sharing responsibilities we mean sharing in the decision making process i.e. something that goes beyond the general duty to consult. However, for that to work there needs to be an understanding and acceptance of roles and responsibilities by all parties. This applies both to the range of risk management activities pursued to prevent exotic disease and the measures taken to eradicate and/or control exotic disease when it occurs.
- 5.3. Currently government assumes considerable responsibility for exotic disease prevention (although in some sectors, industry has in place extensive prevention measures). We believe that there is scope for greater industry participation in this government activity. For example, the balance of responsibilities for matters relating to the registration of holdings, livestock identification, surveillance, animal gatherings (auction markets/shows), on-farm biosecurity, emergency planning could be adjusted more towards a fuller industry role. In addition, deeper industry involvement in the development of policy measures to be deployed in the event of an exotic disease outbreak would be beneficial. These measures include slaughter, haulage, disposal, valuation, compensation, diagnosis/testing, movement controls, cleansing and disinfection, vaccination, communications, advice and welfare disposal.
- 5.4. Industry has significant interests in the technical, veterinary and economic research which underpins policy development. Government leads in many of these areas. Where government may need to retain leadership in areas such as enforcement and international relations, these need not deter the pursuit of a partnership which seeks to reduce animal disease risks.

Scope for sharing responsibilities

- 5.5. The decisions taken in the management of exotic disease risks contribute crucially to our national ability to prevent disease or respond to an outbreak. We believe there is considerable scope for government and industry to work together in such decision-making. Not least in some cases decisions have a direct impact on the costs of an outbreak and,

therefore, on the size of the industry's and government's financial contribution to the disease response. Potentially management decisions should be within the scope of a responsibility sharing commitment. We recognise that the extent of sharing responsibilities in any particular case depends on a number of factors including the establishment of suitable accountability arrangements.

- 5.6. We also consider that one important requirement in any system of sharing responsibilities is that the State Veterinary Service or other delivery agent at the operational level has the flexibility to take action in the event of an outbreak. However, this requirement could be met through an agreement which clearly stipulated roles and responsibilities of the various parties in advance.

Accountabilities

- 5.7. If sharing of responsibility in this area is to be taken forward in any meaningful way, the responsibility sharing arrangement will need to be accountable to the participating parties.
- 5.8. On the industry side there will need to be some consideration of how the industry can provide effective representation. A sharing arrangement for responsibilities and costs will need to demonstrate that industry representatives are accountable to the industry at large for decisions.
- 5.9. On the government side, although there is recognition that sharing responsibility for animal health offers significant advantages, there are accountabilities that will need to be accommodated in the formulation of any responsibility sharing arrangement. It is Ministers who are accountable to Parliament for decisions that they make. Insofar as there will remain public funding under any cost and responsibility sharing arrangement, Ministers will have to remain accountable to Parliament. The Permanent Secretary of Defra is, as Accounting Officer, also accountable for Defra expenditure. The Chief Veterinary Officer is answerable to the EC and International Animal Health Organisations for the implementation of international agreements on animal health in the UK. Finally, government has an overriding obligation to protect public health.

How can sharing responsibility be achieved?

- 5.10. We considered various overseas models that purport to achieve sharing responsibility and costs for animal diseases. In the European Community there are a number of examples of cost sharing schemes but, on the whole, we found none that had any significant element of responsibility sharing as we have defined it. Thus in the Netherlands there is an Animal Health Fund which is owned by the industry but it only to meets obligations under Dutch law for industry to pay for government measures to control notifiable animal diseases.
- 5.11. In Germany each Land has an Animal Disease Fund for administering statutory compensation schemes for notifiable diseases. These are part funded through levies and are governed by managing boards half of which are made up of representatives from the livestock industries and the other half being made up of government officials and private veterinarians. The boards decide the annual business plans and disbursement of budgets. However, ultimate control lies with each Land government.

- 5.12. Since 2002 there has been a cost sharing agreement for emergency animal disease response in Australia which appears to incorporate a significant element of shared decision making. This is an agreement between 'peak' industry organisations and Federal, State and Territory governments. The agreement details roles and responsibilities of the parties and the decision making process in the event of an exotic disease incursion. Under this agreement the key decision making body appears to be the National Management Group (NMG) which takes decisions on policy and resource allocation issues based on advice from a technical consultative committee made up of government Chief Veterinary Officers and representatives from the industry. In addition, Animal Health Australia (AHA), a not-for-profit public company, has been established by the Federal, State and Territory governments and 'peak' national livestock industry organisations. The company's mission is to ensure that the national animal health system delivers a competitive advantage and preferred market access for Australia's livestock industries. In fulfilling this role, AHA manages a suite of national programmes on behalf of its members.⁸
- 5.13. In our view, for the circumstances that apply domestically we propose a new statutory body for sharing responsibilities and costs for exotic animal diseases which should have as its main focus preventing disease and, in particular, minimising the costs associated with exotic diseases and their control. This body would make a reality of "working in partnership" in concrete terms. The shared responsibility should extend to all aspects of the development and delivery of exotic animal disease control policies, including policy in respect of handling disease outbreaks. We recognise that the issues over accountabilities outlined above will have to be accommodated. However, we felt that it was better to be ambitious in saying what we thought would be the best approach for reducing exotic disease risk.
- 5.14. We were also of the strong view that a responsibility and cost sharing system in England alone would not achieve the desired goal of risk reduction given that Great Britain as a whole is the effective epidemiological unit. In our view, there should be common arrangements that apply throughout Great Britain and preferably the United Kingdom. We recognise that animal health is a devolved matter and recommend that the Devolved Administrations and industry colleagues become closely involved in our discussions. In view of the direction of travel of the review of the Community Animal Health Policy and the likely requirement on Member States to introduce cost sharing for epidemic diseases in the near future, we recommend involvement as soon as possible.

Our key conclusions are:

- A new statutory body, with industry and government representation, should be established for sharing responsibilities and costs for exotic animal disease between government and industry;
- The shared responsibility should extend to all aspects of the development and delivery of exotic animal disease control policies, including policy in respect of handling disease outbreaks;
- Government must be able to accommodate this change of approach to a formal partnership;

⁸ Further details of arrangements in Australia and other countries can be found on <http://www.defra.gov.uk/farm/livestock/strategy/cshare/index.htm>

- Industry will need to acknowledge its increased role and its commitment to the partnership;
- The main focus of the partnership body must be on preventing exotic animal diseases and minimising the costs associated with them and their control;
- Devolved Administrations and industry colleagues in Northern Ireland, Scotland and Wales must be engaged as soon as possible in the debate.

Chapter 6: Sharing the Cost of Managing Exotic Disease

- 6.1. Any partnership model needs to specify both a) the mechanism for joint decision making for exotic animal disease control (see Chapter 5) and b) sharing the cost of exotic disease control and, in particular, how the exotic animal disease control activity is to be financed.
- 6.2. We consider that the following principles should be applied to any responsibility and cost sharing agreement between industry and government:
 - It should be equitable and affordable to all parties;
 - It should be based on 'user pays, user says';
 - It has to reflect the responsibilities of the parties involved;
 - There should be certainty in funding and compensation;
 - The cost sharing arrangement must incentivise risk reducing behaviour;
 - Industry and public resources must be used effectively and efficiently.

Costs associated with exotic disease control

- 6.3. Direct costs associated with exotic disease control include costs of:
 - Slaughter
 - Haulage
 - Disposal
 - Veterinary input
 - Administration
 - Serology
 - Vaccination/monitoring
 - Cleansing and disinfection
 - Compensation
- 6.4. Currently these costs are met in large part from public funds – government and by the EC Veterinary Fund – although farmers meet some of these direct costs in some cases. (See Chapter 1 for a brief description of the operation of the Veterinary Fund).
- 6.5. In addition to the direct costs of disease control to government there are indirect costs that are consequential to an exotic disease outbreak – both to farmers and to other associated industries (e.g. tourism, primary processing industries etc). These consequential costs (e.g. costs associated with loss of business, losses associated with movement restrictions etc)

may, in a large outbreak, be greater than the direct costs but are not met by public funds.⁹ We consider that as farmers collectively already meet a large part of the total disease costs this ought to be more widely recognised. We also consider that there is no hard and fast rule to distinguish direct costs to farmers (as opposed to government) from consequential costs. Under the current compensation arrangements farmers who are subject to movement restrictions are often the big losers in any exotic disease outbreak because they do not receive any compensation for the consequential costs associated with such restrictions and there is no well-developed insurance market in this country to cover their losses.

What costs should be covered in a cost sharing arrangement?

- 6.6. We consider that only direct costs for exotic disease control, as set out above, should be covered by a cost sharing agreement. As desirable as it may seem at first sight, we consider that inclusion of consequential loss would be too complex to administer because it would be very difficult to determine equitably the extent of the losses. Also, inclusion of consequential losses could expose the industry to potentially unlimited expenditure. However, consequential losses incurred by livestock keepers should be taken into account in determining the fair share of the direct costs of controlling and eradicating an exotic disease borne by industry. We also believe that more could and should be done by both the farming industry and government to encourage the development of a private insurance market to cover consequential losses.

What proportion of the total direct costs should be met by industry and what proportion by government?

- 6.7. Given the various purposes which disease control measures serve, there can be no standard formula for determining what level the industry's contribution might be. However, we were attracted by the Australian system of disease categorisation. In the Australian approach, diseases are placed into four categories according to a scale of increasing public interest. The industry contribution is then determined on the basis of a pre-agreed formula whereby the higher the public interest the higher the proportion of contribution from public funds and the lower the industry proportion.
- 6.8. Similarly in the Working Paper presented at the Expert Workshop organised by the European Commission, diseases were categorised in terms of 'externalities'. Diseases with High Externalities would be those highly infectious diseases such as FMD or Avian Influenza and the Working Paper suggests that there was a strong case for public involvement in their eradication and they ought to be covered by any cost sharing arrangement. Other diseases were considered to have moderate to low externalities for which there was a weaker case for public involvement in their eradication. Finally, the Working Paper included a category of disease where there were no externalities and no case for public involvement in their control and proposed that these should be left to farmers to deal with through private insurance.

⁹ A cost benefit analysis of FMD disease control options was carried out by Risk Solutions Ltd for Defra and this can be found on <http://www.defra.gov.uk/footandmouth/pdf/costben.pdf>

- 6.9. Whatever the individual merits of the respective Australian and Community approaches to disease categorisation, we consider that the idea merits further work to find an approach that is suitable to this country.
- 6.10. We understand that there is some possibility that in the event of a cost sharing agreement being made mandatory in the EC, the Veterinary Fund would not recognise industry contribution to any cost sharing arrangement. We would not find this acceptable and in negotiations with the Commission, the government's objective should be to ensure that contributions from the EC Veterinary Fund recognise both government's and industry's contribution to expenditure.

Mechanisms for collecting the industry contribution for a cost sharing arrangement

- 6.11. There are a number of different options for raising the industry contribution for a cost sharing arrangement. These include:
- Voluntary insurance;
 - Compulsory insurance;
 - Compulsory disease levy collected prospectively to build up an animal disease fund;
 - Compulsory retrospective disease levy collected after a disease outbreak to meet the industry contribution to a cost sharing agreement;
 - A combination of a payment in advance and a payment retrospectively.
- 6.12. A previous Defra/Insurance Industry Working Group considered these options for financing the industry contribution to a cost sharing arrangement and concluded that levies are less costly than an insurance approach from the farmer perspective. With a levy, farmers would avoid the costs included in the calculation of insurance premiums e.g. insurers profit margin, charge for risk taking, cost of re-insurance and insurance premium tax. In addition, the potential exposure to catastrophic losses by insurers (and re-insurers) meant that it was not an attractive proposition for them.
- 6.13. Voluntary insurance, however, would allow individual livestock keepers to choose to "self-insure" i.e. to manage their own risks, be outside the levy scheme and not to be compensated for any losses under disease control measures. Self-insurance may have appeal to livestock keepers with several geographically spread holdings as happens in the poultry sector. However, this raises questions about the maintenance of bio-security on farms and participation in shared responsibilities. We think the option for livestock keepers to "self-insure" needs further consideration.
- 6.14. There are, of course, other financing mechanisms that could be used. In the Netherlands, for example, each of the livestock sectors (Product Boards) is required to negotiate a bank guarantee which will meet its obligation for a contingency fund in the event of an exotic disease outbreak. Only if the government draws on the bank guarantee are the Product Boards required to raise a levy on their members to repay the bank. (There is also a small prospective levy which is collected by the industry in the Netherlands which is used to fund biosecurity initiatives and industry-led disease surveillance programmes.)

- 6.15. We consider that the only realistic way of raising funds fairly to meet the objectives described is a compulsory levy. We considered the relative merits of prospective and retrospective levies. For a prospective levy based on calculations of the likelihood of future disease outbreaks the advantages are:
- (a) it would tend to keep disease risks in view;
 - (b) it could provide an incentive of a reduced levy to reward a lower disease risk status either through adoption of best practice and/or effective biosecurity;
 - (c) it would enable a contingency fund to be created when the industry can afford to so; and
 - (d) it would provide tangible evidence of the commitment of industry to a partnership approach for exotic disease risk management.

On the other hand a retrospective levy would:

- (a) only be triggered in the event of a disease outbreak;
 - (b) have certainty of the costs to be financed;
 - (c) avoid accumulation of idle funds over a disease-free period enabling the money to be better invested in improved disease risk reduction and prevention by the industry; and
 - (d) allow the industry to spread the cost of meeting its contribution over a defined period.
- 6.16. Both prospective and retrospective levies would tend to reward good collective performance through reduced overall costs. However, a series of outbreaks in quick succession could put severe pressure on any system of financing both from the government and industry perspective.
- 6.17. A possible solution might be to combine elements of both advance and additional retrospective payments into one scheme. The balance of that combination could be weighted either way. If it were to be weighted towards prospective funding then it would have the effect of highlighting the long-term underlying risk and enable the fund to become self-sustaining as soon as possible. On the other hand, if it were weighted towards retrospective funding, the relatively small fund accumulated from the prospective element could be used in some sectors to support activity to enhance on-farm biosecurity. However, we reached no consensus on this point and we recommend that this issue be given further consideration.

Should there be a cap on industry contribution to a cost sharing agreement?

- 6.18. The emergency animal disease cost sharing agreement in Australia, which is based on retrospective levies, includes a pre-set limit on expenditure to eradicate a disease. This limit varies by disease category and is set at a percentage of the gross value of production of the relevant sector of the industry. When a disease incursion occurs an estimate of the costs is made. If the estimate exceeds the pre-set limit all parties must agree to the activation of the agreement and the commitment to pay the higher costs. In the Netherlands, the system is based upon a bank guarantee which is only activated following

a disease outbreak. If the cost of disease control and eradication exceeds the amount of the guarantee, the government underwrites the excess cost over the lifetime of the bank guarantee (which is usually negotiated for a five year period).

- 6.19. In our view it would be unrealistic to expect the industry to meet a significant proportion of the total direct costs of an outbreak if that outbreak were of the scale of the FMD outbreak in 2001 where the direct cost of bringing that outbreak under control was close to £3 billion. For the sake of argument, if the sectors concerned had to face an obligation to repay half that sum, then there would have been a real issue of ability to pay that would have arisen very quickly. Therefore, we consider that there ought, in principle, to be a cap on industry contribution to any cost sharing agreement.

Our key conclusions are:

- Any cost sharing agreement needs to be affordable and equitable to all parties;
- Industry resources and public resources must be used effectively and efficiently to reduce the risk of a disease outbreak and the control and eradication of an outbreak;
- Direct costs can be a relatively small part of the total costs of eradication in a large outbreak;
- It should be recognised that farmers already meet a large part of the total cost of an exotic disease outbreak and this should be taken into account in determining equitable cost sharing arrangements;
- No hard and fast rule can be drawn between consequential loss and direct loss for farmers and there needs to be clear definitions of what costs will be covered by future arrangements;
- The scope of a cost sharing agreement should not include consequential costs. However, there is a need to encourage and provide incentives to private insurers to cover these costs;
- There needs to be further work on disease categorisation to help determine responsibilities and the share of costs between government and industry for different diseases;
- In negotiations in the EC, the government's objective should be to ensure that contributions from the EC Veterinary Fund recognise both government's and industry's contribution to expenditure;
- Further consideration should be given to the issue of prospective and/or retrospective funding of a disease levy;
- There ought, in principle, to be a cap on industry contribution to any cost sharing agreement.

Chapter 7: Outstanding Issues and Further Work

- 7.1. As we stated at the outset, we have had relatively little time to consider all the issues in the depth that they merit and as such this report represents a 'work in progress'. In the previous Chapters we have highlighted specific areas of detail where we consider that further work needs to be undertaken before an informed conclusion can be reached. In this Chapter we highlight some 'big-ticket' issues that we did not have time to address but consider important in reaching a final view on responsibility and cost sharing.
- 7.2. In the time available we were not able to carry out a full analysis of all beneficiaries of a risk management framework for exotic diseases. Under the principle that the 'beneficiary pays' we might reasonably expect contributions from beneficiaries to the cost sharing arrangement. However, this would have required us to engage with interested parties both upstream and downstream of primary production, and the public at large. We recognise the inherent difficulties in securing an arrangement for sharing responsibilities and costs of exotic disease that involved all the beneficiaries in the food supply chain. Nevertheless we have not had discussions with representatives of auction markets, slaughterhouses, processing and cutting plants, foodservice and food retailers and this is an important gap in our information gathering. We are aware, of course, that the effects of disease control measure extend well beyond the farm. Therefore, we consider that it is important that we engage with these downstream food supply chain interests. More work is needed to measure the public benefits which government is charged with protecting and to which we have briefly referred throughout this Report.
- 7.3. A previous Defra/Insurance Industry Working Group engaged with the insurance industry soon after the FMD outbreak in 2001. The industry was asked whether it could provide products to livestock keepers to cover the risks of exotic disease. There was no appetite at that time for such a comprehensive package. However, although we have yet to engage with insurance industry representatives there are some signals from certain insurance industry sources that there may be scope for the development of products particularly relating to consequential losses. Engagement with the insurance industry is, therefore, a high priority.
- 7.4. Devolved Administrations and industry colleagues in Northern Ireland, Scotland and Wales have only partly engaged with the responsibility and cost sharing agenda. Given what we have said about the need to take a common approach across Great Britain and the impending European Community requirement on Member States to introduce cost sharing schemes, there is an urgent need to bring on board the Devolved Administrations and their respective industry representatives.

- 7.5. An important element of our work upon which we have not touched is the inter-relationship between responsibility and cost sharing for exotic disease and better regulation and charging. The *Partners for Success – A farm regulation and charging strategy* signalled a new way forward. An arrangement for sharing responsibilities and costs of exotic disease would need to take account of the wider agenda set out in this strategy. In particular, the strategy announced that government would work with the farming industry in moving towards charging for appropriate regulatory services. We note this and emphasise the need to give full weight to the issue of affordability.
- 7.6. Finally, as this report to Ministers and Industry is a 'work in progress', we think that there is value in either retaining our Group to advise Ministers and engage with others as described here or set up a new joint government/industry working group to take forward the outstanding issues.

Our key conclusions are:

- There needs to be a full analysis of all the beneficiaries of the risk management framework for exotic animal diseases;
- There needs to be an engagement with downstream interests on the principle that 'beneficiary pays' and the government's role in representing the public interest;
- There needs to be further engagement with the insurance industry;
- There is an urgent need to bring on board Devolved Administrations and industry colleagues;
- There is a need to give full weight to the issue of affordability in taking forward the charging agenda;
- Either Joint (Industry/Government) Working Group on Sharing Responsibilities and Costs of Exotic Animal Disease or another joint group needs to take forward these and other outstanding issues.

Annex 1: Terms of Reference

Government and industry working together to secure improvements in animal health and welfare is one of the ways of helping safeguard and enhance the sustainability of the livestock industry. The Joint (Industry/Government) Working Group on Sharing Responsibility and Costs of Animal Disease will work in partnership to make recommendations that will help inform debate on how responsibilities and costs of animal disease outbreaks should be shared between government and the industry.

The Group will consider the balance of risks and responsibilities associated with keeping farm animals in the context of the importance and role of both on-farm and external biosecurity controls. As a result of its considerations the Group will provide strategic advice to Ministers and industry on the balance of risks and responsibilities of keeping farm animals. In this context the Group will also provide direction on the introduction of structure and financing mechanisms designed to meet the costs arising from animal disease outbreaks.

Specifically the Group will develop recommendations to provide industry and Ministers with practical arrangements for the introduction of a partnership to reduce animal disease risks and finance animal disease costs. In the development of its recommendations the Group will take account of:

- (i) the importance, role and value of disease prevention including border control;
- (ii) the importance, role and value of disease surveillance; and
- (iii) the importance and value of exotic disease eradication and reducing spread of exotic disease.

The arrangements will be consistent with the view of the Group on the balance of risks and responsibilities.

The Group will consider and assess the issues involved in introducing a scheme in England between government and livestock producers (whilst keeping in touch with developments in Scotland, Wales and Northern Ireland) to share the costs of tackling animal disease. In particular, this consideration will be in the context of the published strategies for Sustainable Farming and Food¹⁰, Animal Health and Welfare¹¹ and Partners for Success – A Farm Regulation and Charging Strategy¹².

In formulating recommendations the Group will assess and consider:

- a. The implications of cost sharing across livestock and meat supply chains;

¹⁰ Strategy for Sustainable Farming and Food published 2002

¹¹ Animal Health and Welfare Strategy published June 2004

¹² Partners for Success – A farm regulation and charging strategy published in November 2005

- b. The issues of consistency with the approach adopted elsewhere in the UK and by other EC and non-EC countries; and
- c. The evolving discussions of the services of the European Commission and its consultants on the development of Community animal health policy (including financial instruments) for the period 2007 – 2013.

The Group will liaise and engage with representatives of the keepers of other animals kept commercially, as well as livestock and food chain representatives' interests to secure wide ownership of its eventual recommendations. In particular, it will liaise with the Animal Health and Welfare England Implementation Group on its emerging thinking.

The Group may co-opt specialists or relevant representatives from interest groups or other government departments or establish sub-groups for the purpose of taking forward the detailed arrangements in these Terms of Reference.

The Group will prepare a report of its recommendations for industry and Ministers that takes account of:

- a) strategies and policies relating to animal health and welfare;
- b) the consultation the Group has undertaken with a wide range of stakeholders;
- c) the need to fit with European Community Animal Health Policy; and
- d) arrangements operating in other countries.

The Group will provide its report to Defra Ministers by end May 2006.

Annex 2: Membership of the Working Group

Stewart Houston	Joint Chair
Sonia Phippard/Mike Segal w.e.f. 1.4.06	Joint Chair
Robert Robinson	National Beef Association
Peter Morris	National Sheep Association
Mike Sheldon	National Pig Association
Peter Bradnock	British Poultry Council
Mark Williams	British Egg Industry Council
Peter Dawson	Dairy UK
Tom Hind	National Farmers Union
Kevin Pearce	National Farmers Union
Freda Scott-Park	British Veterinary Association
Richard Bennett	England Implementation Group
David Dawson	Defra – Animal Health and Welfare Division
Nafees Meah	Defra – Sustainable Farming Business Division
Roger Walsh	Working Group Secretary (Defra)

Note: Members of the Working Group attended meetings in their individual capacity as experts in their fields and not as representatives of their respective organisations.

